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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

OFFICIALS OF STATE GOVERNMENT

(As of January 22, 2001)

EXECUTIVE BRANCH

Governor

Lincoln C. Almond

Lieutenant Governor

Charles J. Fogarty

Secretary of State

Edward S. Inman, III

General Treasurer

Paul J. Tavares

Attorney General

Sheldon W. Whitehouse

LEGISLATIVE BRANCH

Senate

President Pro-Tempore of the Senate

John C. Revens Jr.

House of Representatives

Speaker of the House

John B. Harwood

JUDICIAL BRANCH

Chief Justice of the Supreme Court

Joseph R. Weisberger

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 1. Summary Of Significant Accounting Policies

A. Basis of Presentation

The accompanying general-purpose financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), except as described in Note 1(D). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

B. Reporting Entity

The general-purpose financial statements include all funds and account groups of the State of Rhode Island and Providence Plantations (the state) and its component units. GASB defines component units as legally separate entities for which a primary government (the state) is financially accountable or, if not financially accountable, their exclusion would cause the state's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the state to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the state. The state has considered all agencies, boards, commissions, public benefit authorities and corporations, the state university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

Blended Component Units

These component units are entities which are legally separate from the state, but are so intertwined with the state that they are in substance, the same as the state. They are reported as part of the state and blended into the appropriate funds.

State Lottery Fund (Lottery) - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the state's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the state to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the state abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

were part of the primary government because it provides services entirely to the primary government. It is blended into the Capital Projects Funds and the General Long-Term Debt Account Group. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Refunding Bond Authority, State House, Providence, RI 02903.

Rhode Island Economic Policy Council (RIEPC) - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with state officials to identify issues facing the state's economy, to develop and recommend creative strategies and policies to address them, to advise the state legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. It is blended into the Special Revenue Funds. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Policy Council, 15 Westminster Street Suite 615, Providence, RI 02903-2417.

Discretely Presented Component Units

Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

Governmental Component Units

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through state appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to the University of Rhode Island, Carlotti Administration Building, Kingston, RI 02881; Rhode Island College, Mount Pleasant Avenue, Providence, RI 02908; and Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the state to assume an administrative takeover of the Central Falls School District. The Governor appointed a special state administrator who replaced the school committee. The state administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Street, Central Falls, RI 02863.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Proprietary Component Units

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the state. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

Rhode Island Student Loan Authority (RISLA) - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Turnpike and Bridge Authority (RITBA) - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835.

Rhode Island Economic Development Corporation (RIEDC) - This Corporation was created in 1995 as a result of a merger by the General Assembly of the Rhode Island Port Authority (RIPAEDC) and former Department of Economic Development. The purpose of RIEDC is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the state, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. Prior to 1995, the RIPAEDC created a subsidiary corporation, the R. I. Airport Corporation, to manage the state's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the state to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 235 Promenade Street, Suite 500, Providence, RI 02908-5739.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the state; (2) to assist hospitals in the state in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 400 Westminster Street, Providence, RI 02903.

Rhode Island Resource Recovery Corporation (RIRRC) - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the state. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

Rhode Island Depositors Economic Protection Corporation (DEPCO) - This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the state which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. DEPCO has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Depositors Economic Protection Corporation, 832 Dyer Avenue, Cranston, RI 02920.

Rhode Island Higher Education Assistance Authority (RIHEAA) - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Public Transit Authority (RIPTA) - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and state governments. For more detailed information, a copy of their financial statements can be obtained by writing to the R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

Rhode Island Industrial Facilities Corporation (RIIFC) - The purpose of this Corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the state. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the state for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the state and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Providence, RI 02908.

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the state. Any losses realized in excess of the fund balance would be funded by the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the state. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

Rhode Island Public Telecommunications Authority (RIPTCA) - This Authority owns and operates a non-commercial educational television station in the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

Rhode Island Children's Crusade for Higher Education (RICCHE) - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, One Allens Avenue, Providence, RI 02903.

C. Fund Accounting

The general-purpose financial statements have been prepared from accounts maintained by the State Controller and from reports prescribed by the State Controller and prepared by the component units based on independent accounting systems maintained by those entities.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

The state uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The state records its transactions in the fund types and account group described below.

Governmental Fund Types

General - is the general operating fund of the state and is used to account for all financial transactions except those required to be accounted for in another fund. Included within this fund are the operations of most jointly financed state - federal programs.

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is mandated.

Debt Service - is used to account for the accumulation of resources for, and the payment of, long-term debt. The state's debt service fund is funded by annual appropriations that approximate the annual interest savings from debt refundings and other sources.

Capital Projects - accounts for resources obtained and used for the acquisition, construction or improvement of capital facilities not reported in other governmental or proprietary funds. Such resources are derived principally from the proceeds of general obligation bonds, revenue bonds, lease participation certificates, and operating transfers from the general fund.

Proprietary Fund Types

Enterprise - is used to account for activities that are financed and operated in a manner similar to private business enterprises where (1) the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered through user charges; or (2) the periodic determination of revenues earned, expenses incurred and/or net income is appropriate. The State Lottery Fund is the only fund in this category.

Internal Service - is used to account for the financing and providing of specified goods and services, on a centralized basis, for other departments and agencies.

Fiduciary Fund Types

Trust and Agency - is used to account for transactions related to assets held by the state in a trustee or agency capacity. These include pension trust funds, expendable and nonexpendable trust funds, and agency funds.

Account Group

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

General Long-Term Debt Account Group - accounts for all general long-term debt and other long-term obligations of the primary government not accounted for in the proprietary funds. Significant long-term obligations include general obligation bonds, revenue bonds, capital leases and compensated absences.

D. Basis of Accounting

All governmental fund types, expendable trust funds, agency funds and governmental component units are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets.

Under the modified accrual basis of accounting, revenues, grants, entitlements and related receivables are recorded in the accounting period that they become both measurable and available, i.e., earned and collected or expected to be collected within the next 12 months. Tax revenues are recorded by the state as taxpayers earn income (personal and business income taxes) or as sales are made (sales and use taxes) or as cash is received (miscellaneous taxes), net of estimated refunds. Grant revenue is recorded when the related expenditure has been made. Cash advances from grants are reported as deferred revenue.

Expenditures are recorded when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include principal and interest on general long-term debt which are recognized when due and compensated absences which are recognized when paid.

On-behalf payments for fringe benefits are reported the same as direct payments to grantees. Therefore, both the state aid to local public school districts and the state's share of the employers' contribution, as required by General Laws, to the Employees' Retirement System for teachers employed by local public school districts are reported as intergovernmental expenditures (operating transfers out for the Central Falls School District) in the general fund.

Unexpended general revenue appropriations, as reappropriated by the Governor, and unexpended restricted revenues and operating transfers in are carried forward at fiscal year end and are available for expenditure in the following fiscal year. The amounts carried forward are reflected in the combined balance sheet as part of fund equity.

All proprietary fund types, pension trust funds, nonexpendable trust funds and proprietary component units are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues and grants are recognized when earned and expenses are recognized at the time related liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings/fund balance.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

The financial statements of R.I. Children's Crusade for Higher Education (RICCHE) are prepared in conformity with generally accepted accounting principles using FASB guidance. RICCHE adopted FASB Statement No. 116, "Accounting for Contributions Received and Contributions Made;" FASB Statement No. 117, "Financial Statements of Not-for-Profit Organizations" and FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

The state does not pool its cash deposits.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the capital projects funds and trust and agency funds are the unexpended portion of certificates of participation and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

G. Investments

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

H. Receivables

Receivables are stated net of allowances for uncollectable and unavailable amounts.

I. Due From Other Governments and Agencies

Due from other governments and agencies represents principally amounts owed to the state in reimbursement of federal expenditures.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

J. Due from/to Other Funds/Component Units/Primary Government

During the course of operations, numerous transactions occur between individual funds within the primary government and between the primary government and discretely presented component units. These intra-entity receivables and payables are classified as "due from other funds/component units/primary government" or "due to other funds/component units/primary government" in the combined balance sheet.

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase.

Inventories of governmental component units are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items.

Inventories of the proprietary funds and proprietary component units are stated at cost.

L. Fixed Assets

The cost of fixed assets acquired by governmental fund types is accounted for as an expenditure upon purchase.

A statement of general fixed assets is not included herein since the information required to prepare such a statement has not been fully developed.

Certain fixed assets used in the operation of internal service funds are capitalized in the fund in which they are utilized and are depreciated on the straight-line basis over their estimated useful lives. Certain internal service funds use capital leases to finance assets. Since the lease costs are recovered through service charges, such assets and related debt are accounted for within the internal service funds. These assets are depreciated over their estimated useful lives.

The cost of fixed assets used by the enterprise fund is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The cost of fixed assets used by the component units is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets. With the exception of the R.I. Economic Development Corporation and the Narragansett Bay Commission, interest is not capitalized.

M. Other Assets

Other assets include, among other things, deferred bond issuance and financing costs, present value of future scholarships pledged by institutions of higher learning, airport noise mitigation assets, restricted assets held in trust, and property held for sale and development.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

N. Rentals Due

Rentals due for payment of principal and current interest on revenue bonds represent amounts due as required under several lease arrangements relating to capital projects.

O. Other Liabilities

Other liabilities include, among other things, deferred scholarships, landfill post-closure costs, and deposits pending distribution.

P. Bonds Payable

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs for proprietary fund types are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Q. Obligations Under Capital Leases

The construction and acquisition of certain state office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Convention Center Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the state (See Note 7(D)).

R. Accrued Liabilities

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

S. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recorded in the General Long-Term Debt Account Group and for proprietary fund types, they are recorded as fund liabilities.

T. Fund Equity

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from the federal and/or state governments. Depreciation expense is recognized on assets acquired or constructed with these funds. Certain funds record transfers from contributed capital to retained earnings in an amount equal to the annual depreciation charge.

Reserved fund balances represent amounts which are (1) not appropriable for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

U. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Intra-entity eliminations have not been made in the aggregation of this data.

V. Change in the Reporting Entity

In fiscal year 2000 the state began reporting the assets and liabilities related to court deposits in an agency fund. These are, principally, deposits held by the various state courts pending resolution of litigation between two or more parties.

The Rhode Island Economic Policy Council has been included as a blended component unit within the special revenue funds.

Note 2. Budgeting and Budgetary Control

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the governor, contains a complete plan of estimated general, federal, restricted revenues and operating transfers in and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is as follows:

- (1) For general revenue appropriations, it is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.
- (2) For federal grants, it is the total of all grants available to a department under the same Catalog of Federal Domestic Assistance (CFDA) number. Federal grant appropriations may also be limited by the availability of matching funds

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

and may also require special approval from a federal agency before reallocating resources among programs.

- (3) For restricted programs and operating transfers in, it is the account level. By its very nature, a restricted account is created by statute for a special purpose and management cannot reassign the resources without special approval. Operating transfers in are accounted for separately because they are reported under "Other Financing Sources" in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Governmental Component Units.

Internal administrative and accounting budgetary controls utilized by the state consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

For the fiscal year ended June 30, 2000 expenditures exceeded appropriations in the following departments and agencies (expressed in thousands):

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**Notes to General-Purpose Financial Statements**

General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Administration			
General revenue appropriations:			
Accounts and Control			\$ 162
Municipal Affairs			11
Taxation			652
Office of Library and Information Services			423
Motor Vehicle Excise Tax Program			3,941
Distressed Communities Relief Program			3,543
Debt Service Payments			27
Federal grants:			
Economic Development - Support for Planning Organizations	11.302		31
Community Development Block Grants/State's Program	14.228		8
Regional Biomass Energy Programs	81.079		11
Conservation Research and Development	81.086		3
Low-Income Home Energy Assistance	93.568		415
Restricted programs:			
DEPCO Escrow Account		2450-80200	2,094
Exxon Oil Overcharge Interest Earnings		2460-81410	78
RIRBA - Workers Compensation Court		2484-82750	2

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Administration (<i>Continued</i>)			
Operating transfers in:			
Motor Vehicle - Highway Safety Grant		2456-90200	24
Lighting Conservation		2462-90100	195
FHWA - T2 - Systems Planning		2472-90200	28
RICPF - Cranston Street Armory		2480-91100	19
Sinking Fund Bond Earnings		2483-90200	648
Debt - URI Sponsored Research Indirect Cost		2486-91501	60
Debt - RIC Housing		2486-95400	18
Debt - CCRI Bookstore		2486-97402	2
Business Regulation			
General revenue appropriations:			
Central Management			8
Securities Regulation			7
Restricted programs:			
Real Estate Appraiser - Registration Fees		1825-80900	7
Labor and Training			
General revenue appropriations:			
Central Management			29
Income Support			21
Restricted programs:			
Office of Director - Workers Compensation		1652-80100	17
Second Injury Indemnity Fund Operation		1652-80500	33
Self-Insurance Operations		1652-81000	7
Legislature			
Restricted programs:			
Audit of Federal Assistance Programs		2626-80100	233
Secretary of State			
General revenue appropriations:			
Corporations			21
State Archives			7
Boards for Design Professionals			
General revenue appropriation			25
Public Utilities Commission			
General revenue appropriation			1
Children, Youth and Families			
General revenue appropriations:			
Children's Behavioral Health			1,276
Juvenile Corrections			109
Federal grants:			
Tech-Prep Education	84.243		6
Children's Justice Grants to States	93.643		7
Child Welfare Services - State Grants	93.645		275
Adoption Assistance	93.659		1,018
Medical Assistance Program	93.778		1,733
Other Expenditures of Federal Awards			36
Restricted programs:			
Social Security Income		3340-80200	61
Elderly Affairs			
Federal grants:			
Nutrition Program for the Elderly (Commodities)	10.570		125
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care			
Ombudsman Services for Older Americans	93.042		15
Special Programs for the Aging - Title III, Part B - Grants for			
Supportive Services and Senior Centers	93.044		133
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		106
Low-Income Home Energy Assistance	93.568		14
Health Care Financing Research, Demonstrations and Evaluations	93.779		4

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Health			
General revenue appropriations:			
Central Management			204
Family Health			65
Health Services Regulation			111
Health Laboratories			136
Federal grants:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		2,319
Fair Housing Assistance Program - State and Local	14.401		23
State Public Water System Supervision	66.432		12
Maternal and Child Health Federal Consolidated Programs	93.110		39
Project Grants and Cooperative Agreements for Tuberculosis Control Program	93.116		58
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		32
Injury Prevention and Control Research and State and Community Based Programs	93.136		1
Health Program for Toxic Substances and Disease Registry	93.161		24
Disabilities Prevention	93.184		27
Child Support Enforcement	93.563		5
Medical Assistance Program	93.778		836
HIV Care Formula Grants	93.917		2
Restricted programs:			
Indirect Cost Recovery - Central Management		1102-80601	376
Making The Grade - RWJ Foundation		1131-80100	116
Infant - Child Immunization		1134-80100	156
All Kids Count		1134-80200	11
Human Services			
General revenue appropriations:			
Individual and Family Support			258
Child Care			500
Food Stamp Replacement for Legal Immigrants			40
Federal grants:			
Veterans Domiciliary Care	64.008		142
Independent Living - State Grants	84.169		5
Rehabilitation Services-Independent Living Services for Older Individuals who are Blind	84.177		26
Supportive Employment Services for Individuals With Severe Disabilities	84.187		74
State's Children Insurance Program	93.767		805
Restricted programs:			
Indirect Cost Recovery - Central Management		1210-80101	168
Operating transfers in:			
RICPF - Forand Building Steam Chiller		1230-90300	1
Mental Health, Retardation and Hospitals			
General revenue appropriations:			
Central Management			46
Hospitals and Community System Support			122
Hospital and Community Rehabilitative Services			1,619
Federal grants:			
Labor Management Cooperation	34.002		7
Office of the Child Advocate			
General revenue appropriation			12
Federal grants:			
Crime Victim Assistance	16.575		2
Medical Assistance Program	93.778		13
Governor's Commission on Disabilities			
General revenue appropriation			13

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Commission for Human Rights			
Federal grants:			
Fair Housing Assistance Program - State and Local	14.401		6
Elementary and Secondary Education			
General revenue appropriations:			
Teachers' Retirement			758
Rhode Island School for the Deaf			31
Federal grants:			
Civil Rights Training and Advisory Services	84.004		1
Byrd Honors Scholarships	84.185		13
Policy Research and Evaluation Grants	93.239		9
Child Care and Development Block Grant	93.575		19
Cooperative Agreements to Support Comprehensive School			
Health Programs to Prevent the Spread of HIV and			
Other Important Health Problems	93.938		13
Rhode Island State Council on the Arts			
Federal grants:			
Promotion of the Arts - Leadership Initiatives	45.026		1
Historical Preservation and Heritage Commission			
Federal grants:			
Historic Preservation Fund Grants-In-Aid	15.904		42
Restricted Programs:			
Survey and Planning - Restricted Fund		2062-80100	2
Historic Preservation Easement Fund		2062-80300	29
Attorney General			
Federal grants:			
Byrne Formula Grant Program	16.579		3
Local Law Enforcement Block Grants Program	16.592		3
Other Expenditures of Federal Awards			2
Corrections			
Federal grants:			
State Justice Statistics Program for Statistical Analysis Centers	16.550		2
Residential Substance Abuse Treatment for State Prisoners	16.593		4
Governor's Justice Commission			
Federal grants:			
Violence Against Women Formula Grants	16.588		77
Judiciary			
General revenue appropriations:			
Supreme Court			307
Defense of Indigents			38
Family Court			12
District Court			56
Traffic Tribunal			172
Federal grants:			
Byrne Formula Grant Program	16.579		1,153
Violence Against Women Formula Grants	16.588		10
State and Community Highway Safety	20.600		1
Restricted programs:			
Indirect Cost Recovery - Family Court		2729-80100	47
Military Staff			
General revenue appropriations:			
Emergency Management			13
Federal grants:			
Community Assistance Program - State Support			
Services Element (CAP-SSSE)	83.105		20
Project Impact - Building Disaster Resistance Communities	83.551		8
Operating transfers in:			
Rails to Trails - Military Staff		2086-90100	38
Welfare to Work - Operation Forward March		2086-90200	167

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
State Police			
General revenue appropriations			12
Federal grants:			
Public Safety Partnership and Community Policing Grants	16.710		6
Restricted programs:			
Forfeited Property - Gambling		2070-80400	14
Operating transfers in:			
Traffic Enforcement		2070-90500	120
Environmental Management			
General revenue appropriations:			
Natural Resources			485
Federal Grants:			
Federal - State Marketing Improvement Program	10.156		12
Boating Safety Financial Assistance	20.005		30
Hazardous Waste Management State Program Support	66.801		61
State and Tribal Underground Storage Tanks Program	66.804		119
Solid Waste Management Assistance	66.808		34
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		11
Restricted programs:			
Boat Registration		1721-80100	23
Fishing License Receipts		1732-80100	6
Boating Safety		1735-80100	121
Environmental Response Fund		1754-80200	144
Water and Air Protection Program		1754-80600	300
State Water Resources Board			
General revenue appropriations			3
Restricted programs:			
Loans for Water Facilities		2835-80300	16

Special Revenue Funds

Employment Insurance			
Federal Grants:			
Labor Force Statistics	17.002		7
Trade Adjustment Assistance - Workers	17.245		2,797
Employment and Training Assistance - Dislocated Workers	17.246		206
Workforce Investment Act	17.255		139
Intermodal Surface Transportation			
Restricted programs:			
Amtrak Projects		Various	322

Note 3. Cash, Cash Equivalents and Investments

Cash Deposits

Primary Government

At June 30, 2000, the carrying amount of the state's cash deposits was \$42,852,639 and the bank balance was \$42,075,950. Of the bank balance, \$1,419,881 was covered by

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

federal depository insurance. The remaining amount, \$40,656,069 was uninsured and uncollateralized. The carrying amount and bank balance include \$9,248,280 of certificates of deposit.

Component Units

At June 30, 2000, the carrying amount of the component units' cash deposits was \$126,436,244 and the bank balance was \$134,006,143. Of the bank balance, \$3,338,015 was covered by federal depository insurance and \$32,267,452 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$98,400,676 was uninsured and uncollateralized. The carrying amount and the bank balance include \$5,301,000 of certificates of deposit.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the state, its agencies or governmental subdivisions of the state, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 2000.

Investments

The State Investment Commission (Commission) is responsible for the investment of all state funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The state's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2000.

- | | |
|-------------|--|
| Category 1: | Insured or registered, or securities held by the state or its agent in the state's name. |
| Category 2: | Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name. |
| Category 3: | Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name. |

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Primary Government

	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 1,520,293	\$ 737	\$	\$ 1,521,030
Commercial Paper	38,740			38,740
Repurchase Agreements	41,500			41,500
Corporate Bonds	687,821	165		687,986
Equity Securities	3,195,537	1,348		3,196,885
Foreign Securities	1,199,093			1,199,093
	<u>\$ 6,682,984</u>	<u>\$ 2,250</u>	<u>\$</u>	<u>6,685,234</u>
Money Market Mutual Funds				426,162
Real Estate and Venture Capital Limited Partnership				372,460
Investments of Statutory Deposits Held In Trust				67,658
Other				6,679
Total				7,558,193
Less amount classified as cash equivalents				408,114
Total Investments				<u>\$ 7,150,079</u>

Component Units

	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 136,042	\$ 209,050	\$ 69,300	\$ 414,392
Money Market			20,996	20,996
Commercial Paper	9,510		25,613	35,123
Repurchase Agreements	53,252	339	90,162	143,753
Corporate Bonds	300			300
Equity Securities	58	2,047		2,105
	<u>\$ 199,162</u>	<u>\$ 211,436</u>	<u>\$ 206,071</u>	<u>616,669</u>
Money Market Mutual Funds				42,971
Investment Agreements				450,876
Investments of the R.I. Children's Crusade for Higher Education				10,570
Other				11,982
Total				1,133,068
Less amount classified as cash equivalents				323,257
Total Investments				<u>\$ 809,811</u>

Derivatives

Primary Government

The Employees' Retirement System (System) may enter into forward foreign currency contracts. These contracts involve risk in excess of the amount reflected in the balance sheet. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

The System may invest in interest-only (IO) and principal-only strips (PO) (forms of mortgage-backed securities) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments. If actual prepayment rates are lower than anticipated, the time

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

remaining until the return of principal is increased. There were no IO strips or PO strips at June 30, 2000.

Cash and Cash Equivalents

Primary Government

Cash and cash equivalents of \$450,967,000 consists of the \$42,853,000 cash carrying amount and \$408,114,000 of investments determined to be cash equivalents.

Component Units

Cash and cash equivalents of \$449,693,000 consists of the \$126,436,000 cash carrying amount and \$323,257,000 of investments determined to be cash equivalents.

Note 4. Receivables

Receivables at June 30, 2000 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Contributions	Allowance for Uncollectable and Unavailable Amounts	Total
Primary Government:							
General fund	\$ 135,232	\$ 9,736	\$	\$	\$	\$ (53,639)	\$ 91,329
Special revenue funds	14,887	3,870				(4,242)	14,515
Enterprise fund		5,139				(289)	4,850
Internal service fund		3,555					3,555
Trust and agency funds	5,035	8,182			17,874	(10,350)	20,741
Total Primary Government	155,154	30,482			17,874	(68,520)	134,990
Component Units:							
Governmental		25,842	6	16,321		(5,679)	36,490
Proprietary		69,354	33,168	2,044,715		(33,400)	2,113,837
Total Receivables	<u>\$ 155,154</u>	<u>\$ 125,678</u>	<u>\$ 33,174</u>	<u>\$ 2,061,036</u>	<u>\$ 17,874</u>	<u>\$ (107,599)</u>	<u>\$ 2,285,317</u>

Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the state for constructing or upgrading water pollution abatement projects.

Other

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

The amount reported in the special revenue funds as due from other governments and agencies, \$29,480,000, is net of \$5,150,000, which is considered unavailable to meet current year expenditures.

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables (operations - due from/due to and working capital loans - loan to/loan from), as of June 30, 2000, are summarized below (expressed in thousands):

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Due from Component Units	Due to Component Units
General	\$ 17,656	\$ 17,601	\$ 16,202	\$ 14,138
Special Revenue:				
Employment Insurance - Federal Programs	1,134	799		
Employment Insurance - Job Development	3	164		
Employment Insurance - Interest	157	94		
Employment Insurance - Tardy		271		
R.I. Temporary Disability Insurance	2,393	2,344		
Intermodal Surface Transportation	1,857	3,625	6,486	2,121
R.I. Underground Storage Tank		1		
Providence River Relocation	9	276		
Subtotal	5,553	7,574	6,486	2,121
Debt Service	2,090	258		
Capital Projects:				
Bond Capital	17,325	19,012	50	7,328
Subtotal	17,325	19,012	50	7,328
Enterprise:				
State Lottery		12,968		
Subtotal		12,968		
Internal Service:				
Central Utilities	1,099			
Central Services	938	22		
Workers' Compensation	878	3		
Special Facilities	764	16		
Automotive Maintenance	617	5		
Central Warehouse	298	3		
Correctional Industries	1,185	1,254		
Federal Surplus		2		
Records Center Fund		9		
Subtotal	5,779	1,314		
Trust and Agency:				
Pension Trust	10,324			
Expendable Trust - ES	100	100		
Subtotal	10,424	100		
Total	\$ 58,827	\$ 58,827	\$ 22,738	\$ 23,587

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Component Units:	Due from Other Funds	Due to Other Funds	Due to Primary Government	Due from Primary Government
Governmental:				
University of Rhode Island	\$	\$	\$ 600	\$ 2,782
Rhode Island College			493	954
Community College of Rhode Island			404	586
Subtotal			1,497	4,322
Proprietary:				
R.I. Economic Development Corporation			3,179	3,386
R.I. Depositors Economic Protection Corporation			12,200	9,483
R.I. Higher Education Assistance Authority			2	333
R.I. Public Telecommunications Authority			6	
Narragansett Bay Commission			19	
R.I. Convention Center Authority			2,478	
R.I. Public Transit Authority			1,646	2,121
Subtotal			19,530	15,323
Total	\$	\$	\$ 21,027	\$ 19,645
Reconciliation				
Fund Type/Fund	Due from Component Units	Due to Primary Government	Due to Component Units	Due from Primary Government
Amounts recorded	\$ 22,738	\$ 21,027	\$ 23,587	\$ 19,645
Capital Projects:				
Bond Capital			(3,942)	
Governmental Component Units				
Rhode Island College		50		
Proprietary Component Units				
RIEDC		1,661		
	\$ 22,738	\$ 22,738	\$ 19,645	\$ 19,645

The Intermodal Surface Transportation Fund reported \$1,661,000 due from R.I. Economic Development Corporation (RIEDC) for certain project costs. RIEDC did not report a corresponding liability because it was not aware of it at the time its financial statements were prepared. The Bond Capital Fund reported \$3,942,000 as due to component units that was not reported as due from primary government in the component units. The Bond Capital Fund reported \$50,000 due from Rhode Island College (RIC). RIC did not report a corresponding liability because it was not aware of it at the time its financial statements were prepared.

Fund Type/Fund	Loans to Other Funds	Loans from Other Funds
General	\$ 6,387	\$
Capital Projects:		
Bond Capital		1,459
RI Clean Water Act Environmental Trust Fund		1,500
Certificates of Participation		58
Subtotal		3,017
Internal Service:		
Workers' Compensation		650
Central Services		500
Central Warehouse		570
Central Utilities		400
Correctional Industries		750
Special Facilities		500
Subtotal		3,370
Total	\$ 6,387	\$ 6,387

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 6. Fixed Assets

The fixed assets by fund type consist of the following (expressed in thousands):

	Land and Improvements	Structures and Improvements 15-100	Machinery and Equipment 5-10	Construction in Progress	Accumulated Depreciation	Net Fixed Assets
Estimated useful lives						
Primary Government:						
Enterprise fund	\$	\$ 1,719	\$ 835	\$	\$ (1,935)	\$ 619
Internal service funds		4,212	3,402		(2,981)	4,633
Total Primary Government		5,931	4,237		(4,916)	5,252
Component Units:						
Governmental	526	1,811	286	3,452	(691)	5,384
Proprietary	142,771	901,918	124,614	92,477	(301,627)	960,153
Total	\$ 143,297	\$ 909,660	\$ 129,137	\$ 95,929	\$ (307,234)	\$ 970,789

The R.I. Economic Development Corporation capitalized interest expense of approximately \$1,514,200, net of interest income of \$1,065,000. The Narragansett Bay Commission capitalized approximately \$25,800 of interest expense as a component of the cost of construction. For the Proprietary Component Units, actual nonoperating interest expense was \$43,064,000 and actual nonoperating interest revenue was \$13,311,000 which represents increases of \$2,605,000 and \$1,065,000 respectively, over the amounts reported in Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Proprietary Component Units.

Note 7. Long-Term Obligations

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

A. Bonds Payable

At June 30, 2000, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government		Governmental Component Units		Proprietary Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2001	\$ 70,823	\$ 55,075	\$ 1,442	\$ 3,309	\$ 159,866	\$ 164,930
2002	76,832	50,249	1,570	3,309	159,416	156,312
2003	79,362	46,425	1,594	3,261	94,893	149,467
2004	78,915	42,415	1,661	3,209	93,706	144,308
2005	79,616	37,805	1,712	3,155	87,230	139,156
Later Years	656,720	206,329	55,093	38,485	2,410,025	1,872,548
	<u>\$ 1,042,268</u>	<u>\$ 438,298</u>	<u>\$ 63,072</u>	<u>\$ 54,728</u>	<u>\$ 3,005,136</u>	<u>\$ 2,626,721</u>

Primary Government

Current interest bonds of the state are serial bonds with interest payable semi-annually and multi-modal bonds that were initially issued at the weekly rate mode but can be changed by

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

the issuer (the state) to a daily rate mode, a commercial paper rate mode or a term rate mode. Capital appreciation bonds are designated as College and University Savings Bonds. The College and University Savings Bonds mature in varying amounts to 2010 with all interest payable at maturity. Interest requirements for the multi-modal variable rate bonds are not reflected in the amortization table shown above since the amounts are indeterminable.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the state pursuant to lease agreements relating to projects financed by the authority and leased to the state. Proceeds from the RIRBA bonds have been used (1) to loan funds to the state to effect the advance refunding of general obligation bonds issued by the state in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various state agencies.

Governmental Component Units

Revenue bonds of the Governmental Component Units were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds of the Governmental Component Units also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

Proprietary Component Units

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

improvements and renovations of a building and parking lot (The Fleet National Bank Project).

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the state covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited.

The R.I. Depositors Economic Protection Corporation (DEPCO) has special obligation bonds outstanding at June 30, 2000. They are payable from amounts, if any, appropriated annually to and deposited in DEPCO's Special Revenue Fund created by statute and amounts realized from the liquidation of assets and other activity (See Notes 21 and 22). The proceeds of the bonds were used to pay deposit liabilities of certain financial institutions in the state which had been closed when their private insurer, Rhode Island Share and Deposit Indemnity Corporation, failed.

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the state and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Commission (NBC) represent the NBC's portion of the state's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the state.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2000 is shown below.

	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
General Obligation Bonds Supported by Taxes:					
Capital Development Plan - 1986	\$ 960	\$	\$ 800	\$	\$ 160
Capital Development Plan - 1988	1,337		365	2	970
Capital Development Plan - 1989	7,245		2,115	1,624	3,506
Capital Development Plan - 1990	21,610		3,220		18,390
Capital Development Plan - 1994	19,165		11,050		8,115
Capital Development Plan - 1996	85,583		56,965		28,618
Capital Development Plan - 1998	101,690		44,035		57,655
R.I. Economic Development Fund	450				450
Underground Storage Tank Replacement					
Revolving Loan Fund	602		600		2
Narragansett Bay Water Quality Management					
District Commission Fund	32,531		19,595	1	12,935
Clean Water Act Environmental Trust Fund	4,040		200		3,840
Open Space and Recreational Area Fund	8,143		3,705		4,438
Drinking Water Protection Fund	4,235		820		3,415
Rhode Island Aqua Fund	440		440		
Clean Water Finance Agency -					
Water Pollution Revolving Loan Fund	22,790		8,830		13,960
General Obligation Bonds Supported by Taxes	310,821		152,740	1,627	156,454
R. I. Industrial-Recreational Building Authority	80,000				80,000
Total	<u>\$ 390,821</u>	<u>\$</u>	<u>\$ 152,740</u>	<u>\$ 1,627</u>	<u>\$ 236,454</u>

In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$35,630,465 at June 30, 2000 (See Note 21). The insured mortgages are guaranteed by the state.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2000 are as follows:

Component Units - Governmental	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,320
Component Units - Proprietary	
R.I. Housing and Mortgage Finance Corporation bank notes, 4.375% to 6.71% interest, payable through 2008.	\$ 8,476
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	561
R.I. Resource Recovery Corporation landfill lease notes, 4% interest.	5,000
R.I. Higher Education Assistance Authority notes payable to the Student Loan Marketing Association, interest is 1.5% above the Treasury Bill rate, through 2001.	435
R.I. Convention Center Authority notes payable under management agreements .	153
	<u>\$ 14,625</u>

C. Loans Payable

Loans payable of the Proprietary Component Units represent liabilities of the Narragansett Bay Commission (NBC) to the City of Providence (\$357,811), to the R.I. Clean Water Finance Agency (RICWFA) (\$47,349,721) and to the R.I. Refunding Bond Authority (\$45,000). The amounts due to the city are liabilities assumed by NBC upon the acquisition of the city's sewage treatment facilities. The loans payable to the RICWFA are for projects financed by that agency.

D. Obligations Under Capital Leases

Primary Government

The state's obligation to the R.I. Convention Center Authority (RICCA) consists of RICCA's outstanding debt at June 30, 2000 based on a lease and agreement between RICCA and the state in effect at that date. The state makes lease payments to pay the operating expenses of RICCA and the debt service on its obligations to the extent they are not supported by RICCA revenues.

The state has entered into capital lease agreements with financial institutions which have issued certificates of participation (COP). These financing arrangements have been used by the state to acquire, construct or renovate facilities and acquire other fixed assets.

The state's obligation under capital leases at June 30, 2000 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. The portion of the state's obligation under capital leases that is payable from general fund appropriations and capital leases not recorded in proprietary fund types is reflected in the general long-term debt account group at June 30, 2000.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Obligation of the state to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2000. Interest for variable rate COP is not reported since the amount is indeterminable.

Fiscal Year Ending June 30	RICCA	COP	Total
2001	\$ 23,955	\$ 11,443	\$ 35,398
2002	23,952	11,522	35,474
2003	23,952	11,153	35,105
2004	23,952	11,104	35,056
2005	23,956	11,056	35,012
Later Years	458,201	83,933	542,134
Total future minimum lease payments	577,968	140,211	718,179
Amount representing interest	(255,038)	(38,198)	(293,236)
Present value of future minimum lease payments	<u>\$ 322,930</u>	<u>\$ 102,013</u>	<u>\$ 424,943</u>

Component Units

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the state equal to the principal and interest for airport related general obligation bonds issued by the state.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**Notes to General-Purpose Financial Statements**

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2000.

Fiscal Year Ending June 30	Governmental			Proprietary	
	URI	RIC	CCRI	RIEDC	RIPTCA
2001	\$ 1,937	\$ 664	\$ 268	\$ 3,782	\$ 1,078
2002	1,609	443	157	3,781	821
2003	1,539	439	156	3,811	827
2004	1,385	443	156	3,622	820
2005	1,367	449	156	3,380	807
Later Years	19,020	1,903	2,970	22,253	4,908
Total future minimum lease payments	26,857	4,341	3,863	40,629	9,261
Amount representing interest	(9,208)	(976)	(1,749)	(11,607)	(2,264)
Present value of future minimum lease payments	<u>\$ 17,649</u>	<u>\$ 3,365</u>	<u>\$ 2,114</u>	<u>\$ 29,022</u>	<u>\$ 6,997</u>

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. Payment is calculated at their then-current rate of pay.

F. Other Long-Term Liabilities

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in the general long-term debt account group. These amounts are generally payable to the federal government five years after the bond issuance date.

The long-term debt portion of violent crimes' claims is included in the general long-term debt account group. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. Repayment has been budgeted for fiscal year 2002 with federal funds allowable under federal regulations (23 CFR Subpart G 712.701 to 712.703).

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**Notes to General-Purpose Financial Statements****G. Changes in General Long-Term Debt**

During the fiscal year ended June 30, 2000, the following changes (expressed in thousands) occurred in general long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30
General obligation bonds payable:				
Current interest bonds	\$ 755,315	\$ 152,740	\$ (58,286)	\$ 849,769
Capital appreciation bonds	34,728		(3,439)	31,289
Accreted interest on capital appreciation bonds	34,603	5,434	(3,691)	36,346
Revenue bonds - RIRBA	174,315		(13,105)	161,210
Bonds payable	<u>998,961</u>	<u>158,174</u>	<u>(78,521)</u>	<u>1,078,614</u>
Lease obligations to the RICCA	329,665		(6,735)	322,930
Certificates of Participation (COP)	96,865	9,843	(4,695)	102,013
Obligations under capital leases	<u>426,530</u>	<u>9,843</u>	<u>(11,430)</u>	<u>424,943</u>
Compensated absences	62,478	2,529		65,007
Other long-term liabilities	17,228	4,391	(1,918)	19,701
	<u>\$ 1,505,197</u>	<u>\$ 174,937</u>	<u>\$ (91,869)</u>	<u>\$ 1,588,265</u>

Governmental Component Units

	Balance July 1	Additions	Reductions	Balance June 30
Compensated absences	\$ 34,033	\$ 3,287	\$ (5,309)	\$ 32,011
Obligations under capital leases	7,392	17,043	(1,227)	23,208
Notes payable	2,366		(46)	2,320
Loans payable	495	200	(43)	652
Bonds payable	40,322	23,800	(1,049)	63,073
Other liabilities	1,153		(525)	628
	<u>\$ 85,761</u>	<u>\$ 44,330</u>	<u>\$ (8,199)</u>	<u>\$ 121,892</u>

H. Defeased Debt

In prior years, the state and its component units defeased certain general obligation bonds and revenue bonds, respectively, and the state defeased COP by placing the proceeds of the new bonds or COP in irrevocable trusts to provide for all future debt service payments on the old bonds and COP. Accordingly, the trust account assets and the liabilities for the defeased bonds and COP are not included in the general-purpose financial statements. On

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

June 30, 2000, the following bonds and COP outstanding (expressed in thousands) are considered defeased:

	<u>Amount</u>
Primary government:	
General Obligation Bonds (includes \$4,301,000 of NBC)	\$ 103,740
Revenue Bonds	
R.I. Refunding Bond Authority	41,747
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Convention Center Authority	202,710
R.I. Depositors Economic Protection Corporation	616,230
R.I. Economic Development Corporation	31,865
R.I. Turnpike And Bridge Authority	41,340

On June 15, 2000, the State deposited \$4,498,927 in an irrevocable trust with an escrow agent. The deposit was used to purchase U.S. Treasury Obligations, at a yield rate of 6.182%, to provide for debt service on \$4,415,000 of 1992 refunding bonds. This resulted in a debt service savings of \$1,846,563. The defeased bonds were removed from the State's General Long-Term Debt Account Group.

During the year ended June 30, 2000, the Rhode Island Depositors Economic Protection Corporation (DEPCO) restructured the existing escrow for the 1992 Series B special obligation bonds, resulting in the recognition of an accounting gain of \$2,060,242. DEPCO also purchased U.S. Government securities, which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on \$3,980,000, \$24,860,000, \$20,975,000, and \$7,050,000 of the 1991 Series A, 1992 Series A, 1992 Series B, and 1993 Series A special obligation bonds, respectively. These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities, and fund balance (deficit). The defeasance was funded through the liquidation of assets, net settlements, excess State sales tax and a loan sale; it resulted in the recognition of an accounting loss of \$1,290,205. DEPCO reduced its aggregated principal and interest payments by approximately \$76,666,000 over the next 10 years.

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2000 was \$166,500,000, \$1,022,216,868 and \$250,000,000, respectively.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Note 8. Reservations and Designations of Fund Equity

Reserved Retained Earnings

The General Laws require that the net income of the Correctional Industries Internal Service Fund be reserved for capital expansion. At June 30, 2000, the balance of the reserve was \$853,439.

The reservations of retained earnings of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are restricted by specific bond resolutions, designations by the Board of Commissioners (Board), or by a trust agreement initiated by RIHMFC. These reserves are made up of four major elements: (1) RIHMFC's Housing Endowment Fund (Fund), (2) commitments for housing initiatives, (3) designated funds, and (4) Affordability Housing Trust (Trust). The Fund was established by the Board to provide a reserve against its outstanding indebtedness, future uncertainties related to the marketplace and as a reserve against non-market related uncertainties. In addition to meeting the foregoing objectives, the Fund was established to provide a means whereby RIHMFC can meet the short-term and long-term affordable housing needs targeted to low and moderate income Rhode Island residents. At a minimum, the amount of the Fund will be maintained at the greater of \$50,000,000 or 4% of the outstanding long-term indebtedness of RIHMFC. The Fund amounted to \$55,665,008 at June 30, 2000. Commitments for housing initiatives represent amounts set aside by the Board. In order to properly finance and administer various major housing initiatives, the Board approved the utilization of RIHMFC's program fund balances for program expenses, housing loans, subsidies and trust funds. Most of the programs, once established, are accounted for in the Operating Program. Commitments for housing initiatives amounted to \$159,013,967 at June 30, 2000. Designated funds represent amounts designated for RIHMFC's self insurance reserve, the operating budget, and cash flow obligations necessary in each of the programs that have bonded indebtedness. Designated funds amounted to \$9,645,786 at June 30, 2000. The Trust was established to assist in activities that involve the creation and preservation of affordable housing in the state. The Trust accounts for funds held by the Trust in a trustee capacity where both the corpus and earnings may be spent in fulfillment of a variety of designated purposes. The balance of the Trust was \$15,177,538 at June 30, 2000.

Reserved retained earnings of the R.I. Turnpike and Bridge Authority (RITBA) consists of \$4,809,710 for debt service.

The General Laws authorize the Narragansett Bay Commission (NBC) to maintain a restricted asset account for environmental enforcement funds. These funds consist of sums recovered by administrative or civil enforcement action and may be used for emergency response or enforcement activities. At June 30, 2000, NBC reported \$103,856 of funds reserved for this purpose.

The reserved retained earnings of the R.I. Higher Education Assistance Authority (RIHEAA) is the trust fund balance of the R.I. Higher Education Savings Trust (RIHEST). RIHEST was created by law to provide a qualified state tuition savings program under Section 529 of the Internal Revenue Code. RIHEST is managed by an independent contractor under the supervision of the R.I. State Investment Commission and RIHEAA. The balance held in trust at June 30, 2000 was \$8,077,564.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

Reserved Fund Balance

The state and its component units' reserved fund balances represent those portions of fund balance that are (1) not appropriable for expenditure or (2) legally segregated for a specific future use. Reserved fund balances (expressed in thousands) are as follows:

	Governmental Fund Types				Fiduciary Fund Types	Total	Governmental
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	Primary Government	Component Units
Budget reserve	\$ 71,269	\$	\$	\$	\$	\$ 71,269	\$
Appropriations carried forward							
General revenue	21,739					21,739	
Departmental restricted revenue	22,385					22,385	
Operating transfers in	6,448					6,448	
Encumbrances		156,413		16,562		172,975	20,565
Long-term receivables		1,647				1,647	
Employment insurance programs		62,890			282,607	345,497	
Debt			2,518	18,245		20,763	2,075
Self-insurance				100		100	
Pension benefits					7,066,998	7,066,998	
Academic college overhead							2,189
Inventory							2,755
Asset protection and capital projects							18,821
Auxiliary enterprises							10,183
Restricted grants, gifts, and aid							2,026
Loan fund							20,402
Trust indenture							1,347
Staff benefit costs allocation							474
Landscaping fund							20
	<u>\$ 121,841</u>	<u>\$ 220,950</u>	<u>\$ 2,518</u>	<u>\$ 34,907</u>	<u>\$ 7,349,605</u>	<u>\$ 7,729,821</u>	<u>\$ 80,857</u>

Changes in General Fund Reserves

The state maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

The state maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service.

The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the state or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

The following table summarizes the activity (expressed in thousands) of these reserve accounts for the fiscal year ended June 30, 2000:

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 65,412	\$ 47,513	\$ (41,656)	\$ 71,269
Public Facilities Asset Protection Account	163		(163)	
Appropriations carried forward				
General revenue	16,123	21,739	(16,123)	21,739
Departmental restricted revenue	22,191	22,385	(22,191)	22,385
Operating transfers in	6,809	6,448	(6,809)	6,448
Total	<u>\$ 110,698</u>	<u>\$ 98,085</u>	<u>\$ (86,942)</u>	<u>\$ 121,841</u>

Designations of Fund Balance

Designated fund balances represent that portion of fund balance segregated to indicate management's tentative plans for future financial resource use.

Designated fund balances in the Special Revenue Funds represent unexpended gasoline tax revenue and unexpended bond proceeds (\$20,919,987) and restricted revenue (\$245,103) brought forward to fiscal year 2001.

Designated fund balance in the Capital Projects Funds (\$135,894,616) represents funds committed to capital projects.

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2000 are presented below (expressed in thousands):

Fund Type/Fund	Operating Transfers			
	In	Out	From Component Units	To Component Units
Primary Government:				
General	\$ 255,067	\$ 52,247	\$ 15,780	\$ 277,297
Special Revenue:				
Employment Insurance Federal Programs		1,677		
Employment Insurance Job Development		212		
R.I. Temporary Disability		645		
R.I. Underground Storage Tank Fund				370
Intermodal Surface Transportation	28,889	64,200	15,079	44,787
Providence River Relocation		241		
R.I. Economic Policy Council	1,750			
Subtotal	<u>30,639</u>	<u>66,975</u>	<u>15,079</u>	<u>45,157</u>
Capital Projects:				
Bond Capital	41,655	63,524		61,605
R.I. Clean Water Act/ Environmental Trust Fund				2,848
Subtotal	<u>41,655</u>	<u>63,524</u>		<u>64,453</u>
Debt Service	8,514			5,546
Enterprise - State Lottery		150,380		
Internal Service - Central Warehouse	328			
Total	<u>\$ 336,203</u>	<u>\$ 333,126</u>	<u>\$ 30,859</u>	<u>\$ 392,453</u>

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

	Operating Transfers			
	In	Out	To Primary Government	From Primary Government
Component Units:				
Governmental:				
University of Rhode Island	\$ 42	\$	\$ 1,922	\$ 78,063
Rhode Island College			789	39,281
Community College of Rhode Island			180	36,116
Central Falls School District				31,652
Subtotal	<u>42</u>	<u></u>	<u>2,891</u>	<u>185,112</u>
Proprietary:				
R.I. Economic Development Corporation				8,257
R.I. Convention Center Authority				20,421
R.I. Depositors Economic Protection Corporation			12,200	59,094
R.I. Higher Education Assistance Authority				7,611
R.I. Public Transit Authority			502	25,454
R.I. Public Telecommunications Authority				1,443
R.I. Children's Crusade for Higher Education				1,652
Narragansett Bay Commission			187	
Subtotal	<u></u>	<u></u>	<u>12,889</u>	<u>123,932</u>
Total Component Units	<u>\$ 42</u>	<u>\$</u>	<u>\$ 15,780</u>	<u>\$ 309,044</u>

Reconciliation

	From Component Units	To Primary Government	To Component Units	From Primary Government
Amounts recorded	\$ 30,859	\$ 15,780	\$ 392,453	\$ 309,044
Component Units				
Governmental				
University of Rhode Island				4,563
Rhode Island College				6,547
Community College of Rhode Island				7,122
Proprietary				
R.I. Economic Development Corporation		15,079		22,609
R.I. Public Telecommunications Authority			414	
Narragansett Bay Commission				14,497
R.I. Clean Water Finance Agency				6,367
R.I. Housing Mortgage Finance Corporation				1,628
R.I. Public Transit Authority				20,490
	<u>\$ 30,859</u>	<u>\$ 30,859</u>	<u>\$ 392,867</u>	<u>\$ 392,867</u>

The difference of \$3,077,000 between operating transfers in/out occurs because the Employees' Retirement System recorded the transactions as expenses as required by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The difference of \$42,000 between operating transfers in/out of the governmental component units occurs because the University of Rhode Island reported an operating transfer in from its enterprise fund. Only the enterprise fund's net gain is reported in the financial statements. The differences in operating transfers to governmental component units occur because, as stated in their notes to the financial statements, operating transfers related to asset protection assistance are based primarily on encumbrances. The state has budgeted for these operating transfers in fiscal year 2001 and does not consider them current year transactions because the agreement is for reimbursement of expenditures. The R.I. Public Telecommunications Authority reported \$414,000 of operating transfers from the primary government to support debt service related to capital lease obligations. However, the primary government paid the debt directly.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

The Intermodal Surface Transportation Fund reported \$15,079,000 of operating transfers from the R.I. Economic Development Corporation (RIEDC) as reimbursement for certain project costs. RIEDC did not report a corresponding operating transfer because the project costs were capitalized. The remaining differences occur because some component units reported funds received from the primary government as contributed capital, grants or increases in fixed assets rather than as operating transfers.

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$11,575,000 for the fiscal year ended June 30, 2000.

Most of the operating leases contain an option allowing the state, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2000:

<u>Fiscal Year Ending June 30</u>	
2001	\$ 11,555
2002	10,087
2003	9,781
2004	9,187
2005	8,668
Later Years	19,740
Total	<u>\$ 69,018</u>

The minimum payments shown above have not been reduced by any sublease receipts.

Note 11. Commitments

Commitments (expressed in thousands) arising from encumbrances outstanding at June 30, 2000 are summarized as follows:

General fund (\$4,300 to be funded by federal funds, \$3,600 to be funded substantially by future appropriations and \$4,900 from other sources)	\$ 12,800
Special revenue funds	156,413
Capital projects funds	16,562
	<u>\$ 185,775</u>

Encumbrance accounting, under which contracts, purchase orders and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation during the fiscal year, is employed in the governmental fund types. General

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Fund encumbrances outstanding at fiscal year end are not reported as a reservation of fund balance. These commitments are funded by future appropriations in the subsequent fiscal year. For financial statement purposes, encumbrances outstanding at June 30 of the Special Revenue Funds and the Capital Projects Funds are shown as a reservation of fund balance.

In fiscal year 1999, the state initiated the development of an integrated financial management information system. The system is expected to be implemented in fiscal year 2002. The state has expended approximately \$2,300,000 thus far and expects to spend \$2,000,000 in fiscal year 2001.

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the state shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,600,000 in the first five years and \$3,560,000 in years 6 through 20.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$9,785,600 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$6,862,000 at June 30, 2000.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II, III, and IV. The capacity of Phase I was reached in May 1993. Phases II and III encompass 34 acres adjoining Phase I. Phase II consists of two areas, referred to as Area I and Area II. Waste disposal commenced on Area II in April 1993 and on Area I in March 1995. Phase III commenced in June 1997. Approximately \$10,621,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 2000, and are included in land and improvements in the financial statements. Phase IV consists of four eleven acre cells of which two cells began accepting refuse in September 2000. To date, \$18,128,434 has been expended on legal fees, permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II

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and III will be approximately \$30,484,000. The liability at June 30, 2000 is approximately \$29,630,000, with \$854,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 94% of landfill capacity for Phase II and III, which has approximately six months of estimated life remaining, has been used to date. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$12,541,625 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2000, the market value of the trust was \$23,843,726. The projected additional deposits into the trust fund on an annual basis are as follows: FYE 2001 - \$1,000,000 and FYE 2002 - \$249,957. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$10,645,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. The costs for this project can not be estimated at this time.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$19,403,000 under various loan programs at June 30, 2000.

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The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2000 remaining commitments on these contracts approximated \$1,422,000.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$13,209,068 at June 30, 2000.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$4,310,909 in student loan reserve funds over a period of five years, such that the total is returned by September 1, 2002.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$2,500,000, respectively.

Note 12. Contingencies

Primary Government

The state is involved in various civil lawsuits which could result in monetary loss to the state. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

Federal Grants

The state receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the state. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the state when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2000 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$194,527,734 and \$60,348,857 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the state will assume the debt if the employer reaches and maintains a specified level of full-time

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equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the state anticipates paying approximately \$454,000 of the debt on the related economic development revenue bonds in fiscal year 2001.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

The RISLA also has an available \$2,000,000 line of credit. Interest is based upon one month London Inter-Bank Offer Rate (LIBOR) plus thirty basis points adjusted weekly. The line of credit is secured by eligible loans of RISLA. Minimum drawdowns on the line of credit are \$100,000 and all proceeds are to be used to purchase or originate eligible student loans. As of June 30, 2000, there was no outstanding balance.

R.I. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.25%. No amount was due under this line of credit at June 30, 2000.

Note 13. Employer Pension Plans

Plan Descriptions

The state, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most state employees. The state does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

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The level of benefits provided to state employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the state, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Investment transactions are recorded on a trade date basis.

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Notes to General-Purpose Financial Statements

Funding Policy and Annual Pension Cost

The state's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	8.57%	26.62%	30.49%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	5.38% & 6.21%		
Annual pension cost	\$85,073	\$1,509	\$1,008
Contributions made - state employees	\$44,354	\$1,509	\$1,008
Contributions made - teachers	\$40,719		
Actuarial valuation date	June 30, 1997	June 30, 1997	June 30, 1997
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	19 years	25 years	30 years
Asset valuation method	Market Value of Assets	Market Value of Assets	Market Value of Assets
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.75%	5.00%	5.50%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement, compounding varies
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10.1, 8-8-2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/98	\$ 86,313	100%	\$ 0
	6/30/99	78,729	100%	0
	6/30/00	85,073	100%	0
State Police Retirement Benefits Trust	6/30/98	603	100%	0
	6/30/99	631	100%	0
	6/30/00	1,509	100%	0
Judicial Retirement Benefits Trust	6/30/98	744	100%	0
	6/30/99	737	100%	0
	6/30/00	1,008	100%	0

Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$10,334,212 during the year ended June 30, 2000.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2000 was \$2,362,203. At July 1, 1999, the most recent valuation date, the total pension benefit obligation was \$33,414,133 and net assets available for benefits were \$17,243,302.

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Notes to General-Purpose Financial Statements

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 14. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to state employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The state's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2000, the state contributed 0.66% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2000 were \$4,200,886, net of retirees' contributions for the 3,126 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$1,045,773 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$994 for each of the 1,052 retirees covered by the plans).

The employer share of the above plans is financed on a pay-as-you-go basis.

Note 15. Deferred Compensation

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The state does not serve in a trustee capacity. Accordingly, the plan assets are not included in the financial statements.

Note 16. Fund Deficits

The Workers' Compensation Internal Service Fund and the Federal Surplus Property Internal Service Fund reported deficits of \$57,471 and \$450, respectively, at June 30, 2000. These deficits will be funded by future revenues.

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The R.I. Convention Center Authority reported a deficit of \$53,912,990 at fiscal year ended June 30, 2000. This deficit will be funded by future revenues.

The R.I. Public Transit Authority reported a deficit of \$6,390,711 at fiscal year ended June 30, 2000. This deficit will be funded by future revenues.

The R.I. Water Resources Board Corporate reported a deficit of \$705,143 at fiscal year ended June 30, 2000. This deficit will be funded by future revenues.

Note 17. Restatement of Fund Equity

Certain restatements of fund equity balances, as of June 30, 1999, are summarized in the following table (expressed in thousands):

	June 30, 1999 Fund Equity As Previously Reported	Adjustment	July 1, 1999 Fund Equity Restated
Primary Government			
Special Revenue Funds			
Intermodal Surface Transportation Fund	\$ 25,164	\$ (1,009)	\$ 24,155
Rhode Island Economic Policy Council		2,290	2,290
Other Special Revenue Funds	60,098		60,098
	<u>\$ 85,262</u>	<u>\$ 1,281</u>	<u>\$ 86,543</u>
Internal Service Funds			
Central Services	\$ 1,354	\$ 7	\$ 1,361
Central Warehouse	1,210	1	1,211
Correctional Industries	1,350	(1)	1,349
Federal Surplus Property		1	1
Other Internal Service Funds	1,779		1,779
	<u>\$ 5,693</u>	<u>\$ 8</u>	<u>\$ 5,701</u>
Governmental Component Units			
University of Rhode Island	\$ 24,825	\$ 699	\$ 25,524
Other Governmental Component Units	12,711		12,711
	<u>\$ 37,536</u>	<u>\$ 699</u>	<u>\$ 38,235</u>
Proprietary Component Units			
R.I. Turnpike and Bridge Authority	\$ 30,740	\$ 3	\$ 30,743
R.I. Economic Development Corporation	243,225	(20,226)	222,999
R.I. Public Telecommunications Authority	1,569	(899)	670
Other Proprietary Component Units	551,071		551,071
	<u>\$ 826,605</u>	<u>\$ (21,122)</u>	<u>\$ 805,483</u>

The beginning fund balance of the Intermodal Surface Transportation Fund was restated to correct errors resulting in an overstatement of previously reported assets.

The Rhode Island Economic Policy Council is reported as a blended component unit of the special revenue funds beginning with fiscal year 2000.

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The beginning retained earnings of the Central Services Internal Service Fund was restated to correct errors resulting in an overstatement of previously reported fixed assets and accumulated depreciation.

The beginning retained earnings of the Central Warehouse Internal Service Fund was restated to correct errors resulting in an understatement of previously reported fixed assets, accumulated depreciation, and capital lease obligations.

The beginning retained earnings of the Correctional Industries Internal Service Fund was restated to exclude Federal Surplus Property which is now reported as a separate Internal Service Fund.

The beginning fund equity of the University of Rhode Island was restated to correct errors resulting in an understatement of previously reported assets.

The beginning retained earnings of the R.I. Turnpike and Bridge Authority was restated to correct errors resulting in an understatement of previously reported assets.

The beginning retained earnings of the R.I. Economic Development Corporation was restated to correct errors resulting in the overstatement of previously reported assets.

The beginning retained earnings of the R.I. Public Telecommunications Authority was restated to correct errors resulting in an understatement of previously reported liabilities.

Note 18. Segment Information

Segment information for the governmental and proprietary component units is presented (expressed in thousands) in the following schedules:

Governmental	URI	RIC	CCRI	CFSD
Due from primary government	\$ 2,782	\$ 954	\$ 586	\$
Other current assets	51,059	14,244	7,475	3,642
General fixed assets	5,384			
Amounts available in debt service fund		284	564	
Amounts to be provided for retirement of GLTD	86,534	20,672	10,489	1,404
Due to primary government	600	494	404	
Other current liabilities	32,701	9,197	4,141	2,309
Bonds payable	48,407	10,432	4,233	
Other long-term liabilities	39,652	10,944	6,820	1,404
Revenues	205,924	45,328	32,797	1,208
Current expenditures	271,684	82,621	66,273	32,089
Capital outlay expenditures	15,873	2,261	2,038	1,269
Debt service expenditures	2,319	425	400	
Transfers from primary government	78,063	39,281	36,116	31,651
Excess of revenues and expenditures	19,049	378	21	(498)
Net gain from proprietary operations	1,030			

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Proprietary	RIHMFC	RISLA	RITBA	RIEDC	RICCA	NBC
Due from primary government	\$	\$	\$	\$ 3,386	\$	\$
Other current assets	1,951,479	674,957	35,019	181,621	29,173	33,065
Fixed assets (net)	15,427	546	46,127	350,411	219,593	218,739
Due to primary government				3,179	2,478	19
Other current liabilities	40,813	15,096	2,502	5,960	7,239	5,203
Bonds payable	1,525,716	623,306	42,266	247,978	300,203	19,609
Other long-term liabilities	183,969			45,074	153	48,085
Operating revenue	126,172	45,674	11,221	39,613	39,940	29,098
Operating expenses	115,918	37,978	3,895	30,502	31,726	22,101
Depreciation, depletion and amortization	2,922	412	749	15,086	9,526	5,032
Operating income (loss)	7,332	7,285	6,577	(5,974)	(1,311)	1,965
Transfers from primary government				8,257	20,420	
Transfers to primary government						(188)
Net income (loss)	6,042	7,285	6,197	4,492	1,131	216
Current capital contribution				33,136		14,497

Proprietary	RIHEBC	RIRRC	DEPCO	RIHEAA	RIPTA	RIIFC
Due from primary government	\$	\$	\$ 9,483	\$ 334	\$ 2,121	\$
Other current assets	8,863	28,876	69,766	34,201	13,445	1,166
Fixed assets (net)	9	50,155	82	1,584	51,825	
Due to primary government			12,200	2	1,647	
Other current liabilities	7	3,846	1,828	18,045	13,879	11
Bonds payable			41,659			
Other long-term liabilities		45,275	1,011	1,285	14	621
Operating revenue	1,068	50,673	29,314	6,159	11,439	210
Operating expenses	527	31,357	4,243	12,241	45,614	37
Depreciation, depletion and amortization	3	5,721	35	190	5,804	
Operating income (loss)	538	13,596	25,036	(6,272)	(39,980)	173
Transfers from primary government			59,094	7,611	25,454	
Transfers to primary government			(12,200)		(502)	
Net income (loss)	920	13,596	70,189	1,770	(6,171)	(7)
Current capital contribution					15,409	

Proprietary	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Due from primary government	\$	\$	\$	\$	\$
Other current assets	267,804	3,834	8,591	2,732	11,372
Fixed assets (net)	34	649		4,864	109
Due to primary government				6	
Other current liabilities	3,041	15	1,263	419	355
Bonds payable	155,795		17,048		
Other long-term liabilities		1,197		6,997	54,204
Operating revenue	11,891	315	1,907	2,048	1,860
Operating expenses	9,220	157	31	3,058	5,668
Depreciation, depletion and amortization	68	14	113	1,010	33
Operating income (loss)	2,603	144	1,763	(2,020)	(3,841)
Transfers from primary government				1,444	1,652
Transfers to primary government					
Net income (loss)	27,012	266	(2,141)	(152)	(1,876)
Current capital contribution					

Note 19. Risk Management

The state is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The state has entered into agreements with commercial insurance companies for comprehensive insurance coverage on state property to protect the state against loss from fire and other risks. Furthermore, the state is required by the General Laws to provide insurance coverage on all motor vehicles owned by the state and operated by state

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employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The state also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The state is self-insured for risks of loss related to torts. Tort claims are defended by the state Attorney General and, when necessary, appropriations are provided to pay claims.

The state is self-insured for various risks of loss related to work related injuries of state employees. The state maintains the Workers' Compensation Fund, an internal service fund that services workers' compensation claims. The fund bills to user agencies the costs associated with claims and a service charge to cover the fund's administrative expenses.

There are no funds reserved for pending claims or incurred but not reported liabilities.

Note 20. Extraordinary Items

The R.I. Housing and Mortgage Finance Corporation periodically retires bonds prior to the redemption date. Deferred bond issuance costs, along with any premium paid on the call, in the amount of \$1,289,456 were reported as an extraordinary loss in fiscal year 2000.

The R.I. Depositors Economic Protection Corporation reported an extraordinary item of \$770,037. This was the net result of reporting an accounting gain of \$2,060,242 on the restructure of the existing escrow for special obligation bonds and an accounting loss of \$1,290,205 on a debt defeasance that was funded through the liquidation of assets, net legal settlements, excess state sales tax, and a loan sale.

Note 21. Related Party Transactions

The R.I. Depositors Economic Protection Corporation (DEPCO) is entitled by statute to six-tenths of one percent within the state's sales and use tax rate. For the fiscal year ended June 30, 2000, the portion of the state's sales tax appropriated for DEPCO amounted to \$46,894,097. Payment to DEPCO requires an annual appropriation by the General Assembly. The General Assembly is not legally bound or obligated to make such appropriations. Due to the final defeasance of all remaining outstanding bonds on August 3, 2000, the payment agreement between DEPCO and the State was terminated effective August 28, 2000.

The R.I. Resource Recovery Corporation (RIRRC) entered into a lease and agreement with the state whereby the RIRRC agreed to lease the landfill to the state. Pursuant to this lease and agreement RIRRC issued \$5,000,000 of notes on July 29, 1999. The principal and interest on these notes are secured by rentals as set forth in the lease and agreement. The notes were due on July 30, 2000. On July 29, 2000, the \$5,000,000 and \$200,000 of accrued interest were paid out of available cash and investments.

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2000 amounted to \$77,322,000. Distributions of \$8,722,836

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Notes to General-Purpose Financial Statements

during the fiscal year ended June 30, 2000 are included in private gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2000 amounted to approximately \$9,800,000. There were no distributions to RIC during the fiscal year ended June 30, 2000.

As of June 30, 2000, the Employees' Retirement System held investments in bonds issued by the R.I. Housing and Mortgage Finance Corporation having a fair value of \$3,844,884. This corporation is included as a component unit in the accompanying general-purpose financial statements.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the state, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The state entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the state to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the state used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the state's six airports and other air facilities. RIAC agrees to reimburse the state for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

Note 22. Subsequent Events

Primary Government

In September 2000, the state issued \$31,365,000 of variable rate general obligation multi-modal bonds.

In December 2000, the state issued \$28,180,000 of certificates of participation. The interest rates ranged from 4.30% to 5.125% with maturities from 2001 to 2014 and term certificates due in 2020 at an interest rate of 5.375%.

Component Units

In August 2000, DEPCO defeased \$32,540,000 of its special obligation bonds. This represented all remaining bonds of DEPCO.

In September 2000 and December 2000, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued bonds in the amount of \$65,000,000 and \$42,875,000 respectively. Additionally in October 2000, RIHMFC called \$37,355,000 of bonds outstanding at June 30, 2000.

SPECIAL REVENUE FUNDS

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is mandated. The state uses the following special revenue funds.

Employment Insurance Funds

Federal Programs – accounts for the activity of federal grants related to job training.

Interest – accounts for all interest received from employers and refunds of interest erroneously collected. Funds may be used to pay interest owed on federal advances and maintain essential employment security positions.

Tardy – accounts for all penalties received from employers and refunds of penalties erroneously collected. Funds may be used to maintain essential employment security positions that would otherwise be diminished or eliminated by reductions in federal funding.

Job Development – accounts for the tax on employers' taxable payroll and expenditures for job training, counseling and assessment services, and other related activities and services.

R.I. Temporary Disability Insurance – accounts for the employee tax on wages that are levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

R.I. Underground Storage Tank Financial Responsibility – accounts for a designated portion of the gasoline tax to be used to facilitate the clean-up of leaking underground storage tanks or underground storage tanks systems, in order to protect the environment, including drinking water supplies and public health.

Intermodal Surface Transportation – accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the state's highway system.

Providence River Relocation Project – accounts for all revenues received and expenditures incurred related to the relocation of two rivers in the City of Providence and the extension of Memorial Boulevard.

Rhode Island Economic Policy Council – works with state officials to identify issues facing the state's economy, to advise the state legislature in policy matters relating to economic development, and to administer a grant program designed to foster private technology commercialization. It is a blended component unit.